

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Robert G. Taub, Vice Chairman;  
Mark Acton;  
Tony Hammond; and  
Nanci E. Langley

Competitive Product Prices  
Priority Mail  
Priority Mail Contract 56

Docket No. MC2013-42

Competitive Product Prices  
Priority Mail Contract 56 (MC2013-42)  
Negotiated Service Agreement

Docket No. CP2013-55

ORDER ADDING PRIORITY MAIL CONTRACT 56  
TO THE COMPETITIVE PRODUCT LIST

(Issued April 9, 2013)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Priority Mail Contract 56 to the competitive product list.<sup>1</sup> For the reasons discussed below, the Commission approves the Request.

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<sup>1</sup> Request of the United States Postal Service to Add Priority Mail Contract 56 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, March 28, 2013 (Request).

## II. BACKGROUND

On March 28, 2013, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that Priority Mail Contract 56 is a competitive product, and one that is “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). *Id.* at 1. The Postal Service further asserts that the prices and classification underlying the contract are supported by Governors’ Decision No. 11-6.<sup>2</sup> Among the supporting documents, the Postal Service included a copy of Governors’ Decision No. 11-6, a contract related to the proposed new product (Agreement), requested changes to the competitive product list, a statement supporting the Request, and a certification of compliance with 39 U.S.C. § 3633(a). In addition, the Postal Service submitted an application for non-public treatment of materials to maintain redacted portions of the contract, customer-identifying information, and related financial information filed under seal. Request, Attachment F.<sup>3</sup>

On April 1, 2013, the Commission issued an order establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.<sup>4</sup>

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<sup>2</sup> Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors’ Decision No. 11-6).

<sup>3</sup> In its application for non-public treatment of materials, the Postal Service asks the Commission to protect customer-identifying information from public disclosure indefinitely. *Id.* at 7. The Commission has consistently denied similar requests. See, e.g., Docket Nos. MC2011-1 and CP2011-2, Order No. 563, Order Approving Express Mail Contract 9 Negotiated Service Agreement, October 20, 2010, at 6-7.

<sup>4</sup> Order No. 1687, Notice and Order Concerning Addition of Priority Mail Contract 56 to the Competitive Product List, April 1, 2013.

### III. COMMENTS

The Public Representative filed comments on April 8, 2013.<sup>5</sup> No other interested person submitted comments.

The Public Representative states that he has reviewed the Request, supporting documentation, and supporting financial models. *Id.* at 2. Based on this review, he concludes that it would be appropriate to add the Agreement to the competitive product list and that the Agreement should generate sufficient revenue to cover costs during its first year. *Id.* at 3. He expresses concern that the Postal Service did not provide data to demonstrate that the Agreement will cover its costs in its second and third years, but asserts that the terms of the Agreement, which provide for an annual adjustment in rates, should allow it to continue to meet the requirements of 39 U.S.C. § 3633(a) over its entire term. *Id.* He also notes that the Commission has the opportunity to review the financial results of the Agreement in each year's Annual Compliance Determination (ACD). *Id.*

### IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the Agreement, the supporting data filed under seal, and the Public Representative's comments.

*Product list requirements.* The Commission's statutory responsibilities when evaluating the Request entail assigning Priority Mail Contract 56 to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.30(d). In addition, the Commission must consider the availability and use of private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. § 3020.30(f), (g), and (h).

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<sup>5</sup> Public Representative Comments on Postal Service Request to Add Priority Mail Contract 56 to Competitive Product List, April 8, 2013 (PR Comments).

The Postal Service asserts that it provides Priority Mail service in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service affirms that the contract partner supports the Request, that expedited shipping is widely available from private firms, and that it is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3.

Having considered the relevant statutory and regulatory requirements and the Postal Service's supporting justification, the Commission finds that Priority Mail Contract 56 is appropriately classified as competitive and added to the competitive product list.

*Cost considerations.* Because Priority Mail Contract 56 is a competitive product, the Postal Service must also show that the Agreement covers its attributable costs, contributes to the Postal Service's institutional costs, and does not cause any market dominant products to subsidize competitive products. 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.5.

As part of its Request, the Postal Service submitted a certified statement that the Agreement complies with the requirements of 39 U.S.C. § 3633(a). Request, Attachment E. In addition, the Postal Service filed supporting revenue and cost data showing that the Agreement is expected to cover its costs during its first year. The Public Representative raises concerns about the lack of data for years two and three of the Agreement. PR Comments at 3. As noted by the Public Representative, however, the Agreement requires annual price adjustments to account for changes in prices of general applicability. *Id.*; see also Request, Attachment B at 2. These provisions should allow the Agreement's revenues to cover costs in years two and three. Thus, the Commission finds that Priority Mail Contract 56 complies with the provisions applicable to rates for competitive products. As part of its ACD proceedings, the Commission will review the Agreement's financial performance for consistency with 39 U.S.C. § 3633(a).

*Other considerations.* By its terms, the Agreement becomes effective 1 business day following the date that the Commission issues all necessary regulatory approvals. Request, Attachment B at 2. It expires 3 years from the effective date unless, among other things, either party terminates the Agreement with 30 days' written notice to the other party. *Id.* at 3.

If the Agreement is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

Within 30 days after the Agreement terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by weight and zone associated with the Agreement.

In conclusion, the Commission approves Priority Mail Contract 56 as a new product. The revision to the competitive product list appears below the signature of this Order and is effective immediately.

*It is ordered:*

1. Priority Mail Contract 56 (MC2013-42 and CP2013-55) is added to the competitive product list as a new product under Negotiated Service Agreements, Domestic. The revision to the competitive product list appears below the signature of this Order and is effective immediately.
2. The Postal Service shall notify the Commission if the Agreement ends prior to the scheduled expiration date as discussed in this Order.
3. Within 30 days after the Agreement terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by weight and zone associated with the Agreement.

4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Shoshana M. Grove  
Secretary

CHANGE IN MAIL CLASSIFICATION SCHEDULE  
CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission's order in Docket Nos. MC2013-42 and CP2013-55. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2000 Competitive Product List

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Negotiated Service Agreements

Domestic

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Priority Mail Contract 56

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